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Trade Rivalries in Latin America

BY HOWARD J. TRUEBLOOD

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with the aid of the Research Staff of the Foreign Policy Association

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Washington's recent proposal to lease six destroyers to Brazil, following on renewed trade negotiations between the two countries, vividly illustrates the competition of the great powers for control of Latin-American markets. At the beginning of the depression, 60 per cent of the world's exports to Latin America came from the United States; by 1933 this percentage had declined to 48 per cent. The Hull reciprocal trade program represents an effort to recover this trade and meet the threat of British, German and Japanese competition. By upholding most-favored-nation treatment, however, the Hull program refuses to take immediate advantage of this country's bargaining position. The

policy of the United States is in contrast to that of Britain and Germany, which have concluded preferential or compensation agreements with several Latin-American countries. The most aggressive campaign for Latin-American trade has been waged by Germany, which in 1936 displaced the United States in Brazil and Chile as chief source of imports. In Argentina, Germany has been less successful, doubtless because of British opposition, while throughout Latin America Japanese competition seems to be losing ground. Despite the apparent success of Britain and Germany, long-term factors seem to be working in favor of the United States.

WHILE exports from the United States to all Latin-American countries during the past two years have been less than those to the United Kingdom alone, the Latin-American market is highly important with respect to various individual commodities and commodity groups. In 1935 shipments of cotton manufactures to Latin America accounted for 54.1 per cent of total American exports in this classification. Latin America took 55.3 per cent of our exports of steel mill products, and almost one-third of our shipments of leather goods, rubber manufactures, silk goods, paper products, iron and steel advanced manufactures, and electrical and industrial machinery. Exports of automobiles, including parts and equipment, not only equalled almost 22 per cent of total United States exports in this category, but were valued at 13 per cent of all Latin-American purchases in the United States during 1935.¹

RECENT TRENDS IN LATIN-AMERICAN TRADE

With the exception of a brief post-war period of adjustment, when prices of most raw materials declined sharply from the artificial levels previously

reached, Latin-American exports as a whole maintained a generally upward trend from the beginning of the twentieth century to 1929. The collapse in world commodity prices which began in that year caused a precipitous drop in export values which was not checked until 1933, when the total value of shipments reached a low point of \$1,061,000,000, in contrast with \$3,167,000,000 in 1929.² Since 1933 there has been a gradual recovery in the gold value of exports but, even in 1936, it is estimated that it approximated only about 40 per cent of the 1929 figure or, roughly, \$1,252,000,000. The volume of exports, on the other hand, has remained comparatively stable, and it is estimated that in 1933, when export values reached their nadir, the quantum of exports was at least 81.6 per cent of 1929.³ Since 1933 the volume of exports

2. Data from League of Nations, *Review of World Trade, 1935, and 1936* (Geneva, 1936 and 1937). These figures, as well as those following, on total exports and imports are in terms of old gold dollars. The decline was obviously less severe in terms of current dollars, sterling or other depreciated currencies, or in terms of actual purchasing power.

3. In the absence of reliable data on the quantum of Latin-American trade, this estimate has been made by applying the *Index of Latin American Purchasing Power*, compiled by the Standard Statistics Company, Inc., to export values. This index (1930-31=100) is a weighted average of dollar prices for 23 commodities comprising some 85 per cent of all Latin-American exports, but it has been reduced to a gold basis for years subsequent to 1932.

1. Statistical data compiled from U. S., Department of Commerce, *Foreign Commerce and Navigation of the United States, 1935*.

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appears to have risen substantially, with the index (1929=100) standing at an estimated 91.9 in 1936, against 91.0 in 1935 and 87.7 in 1934. In the two latter years, the rise in quantum was sufficient to offset a further drop in Latin-American export commodity prices, which reached their lowest point in 1935. These movements are illustrated by the following table:

	<i>Index of L. A. purchasing power*</i>	<i>Value of L. A. exports†</i>	<i>Estimated quantum index*</i>
1929	152.9	3,167	100.0
1930	116.5	2,248	93.2
1931	83.7	1,704	98.3
1932	69.5	1,177	81.8
1933	62.8	1,061	81.6
1934	59.7	1,085	87.7
1935	59.3	1,118	91.0
1936	64.7	1,252	91.9

*Cf. footnote 3, p. 154. The index figures for years subsequent to 1932, before conversion to a gold basis, were as follows: 1933, 79.9; 1934, 100.0 (base year); 1935, 100.4; and 1936, 109.6.

†League of Nations, *Review of World Trade*, 1936. Values in millions of gold dollars.

While by far the greater part of the drop in Latin-American export values was due to the decline in world commodity prices, this decline was accompanied by a drastic shrinkage in world demand for the various industrial raw materials, such as copper, tin and nitrates, produced in this area. Prices of industrial raw materials, moreover, fell to an even greater extent than those of foodstuffs, and both classifications, which include virtually all Latin-American exports, declined more in value than the manufactured articles which Latin America imports. Even as late as 1936, the index of world prices for foodstuffs (gold basis) was only 42.5 per cent of 1929, and that for raw or partly manufactured materials 41.5 per cent, in contrast with 48 per cent in the case of manufactured goods.⁴ The recent upward trend in basic commodity prices, however, suggests that this discrepancy is being eliminated.

The loss in purchasing power resulting from the decline in export values, together with a sharp drop in new capital imports, was immediately reflected by a curtailment of Latin-American imports. This curtailment, however, was neither sufficiently rapid nor extensive to prevent serious currency difficulties in most countries, followed in many cases by increased tariffs and stringent exchange regulations. The latter, in turn, acted further to restrict imports, which fell from \$2,707,000,000 in 1929 to \$749,000,000 in 1932, when the

4. Cf. *Review of World Trade*, 1936, cited, p. 15.

lowest point was reached. In contrast to industrial nations, which resorted to "re-agriculturalization" during the depression, Latin America turned to industrialization as a means of offsetting the effects of depreciated currencies, tariff walls and the contraction in export values.

The development of Latin-American manufacturing, even apart from the "branch factory" movement of foreign industries, has been under way for many years, but progress has been exceptionally rapid in the period since 1930.⁵ In the case of Chile, where the loss of export markets was particularly severe, the index of industrial production (1928-29=100) averaged 143.4 in 1936, as compared with 137.3 in 1935, 119.2 in 1934, and 99.4 in 1932.⁶ The principal domestic industries producing for domestic consumption are cement, footwear, textiles, glassware, soap, paper, matches, tobacco products, coke, canning and beverages. Brazil, owing to a protective policy dating from 1879,⁷ as well as to the combination of a large internal market, cheap labor and an abundance of raw materials, is the most industrially advanced country in Latin America. The total number of industrial enterprises in Brazil was estimated at 30,000 in 1935, against only 13,305 in 1920, and the value of production for 1935 has been placed at 6,000,000 contos.⁸

In Argentina, infant industries have had the protection of a blanket 10 per cent increase in tariffs, imposed as an emergency measure in 1931 but not yet removed, in addition to exchange depreciation and a surcharge of 20 per cent on imports not covered by prior exchange permits.⁹ To a large extent, the new "industrialization" of Argentina has resulted from development of the meat packing industry, which began in the early part of the century, and establishment of branch factories or assembly plants by foreign companies to avoid tariffs or obtain other advantages.¹⁰ In addition, however, a more purely domestic industrial development has taken place, with foodstuffs, textiles, paper, cement, glass, boots and shoes,

5. Cf. George Wythe, "The New Industrialism in Latin America," *Journal of Political Economy*, April 1937.

6. *Estadística Chilena*, Enero de 1937.

7. Wythe, "The New Industrialism in Latin America," cited, p. 208.

8. E. Murray Harvey and W. G. Bruzard, *Report on Economic and Commercial Conditions in Brazil* (London, Department of Overseas Trade, 1937), p. 80.

9. Stanley G. Irving, *Economic Conditions in the Argentine Republic* (London, Department of Overseas Trade, 1936), p. 20.

10. For an analysis of the influences behind industrial migration to South America, cf. Dudley Maynard Phelps, *Migration of Industry to South America* (New York, McGraw-Hill, 1936), pp. 27-89.

furniture, rubber goods and beverages prominent among manufactures.¹¹

From 1932 to 1936, total Latin-American imports have expanded by almost 13 per cent in terms of gold values, and the increase in volume was doubtless considerably greater. This recovery is attributable to the rise in purchasing power entailed by higher world prices for raw materials and, more recently, to a limited resumption of capital imports. While the widespread and pronounced economic recovery now under way in Latin America may logically be expected to find reflection in a continued expansion of purchases abroad, partly with the aid of new foreign investments, the character of the import trade has been definitely altered in the past seven years. In general, Latin America has learned to provide itself with a large part of the foodstuffs and articles of common consumption such as shoes, simple textiles, paper products and cement, which were formerly purchased abroad. Imports of semi-manufactures and capital goods have increased in importance relative to goods for immediate consumption. Latin America still relies, and probably will continue to rely, on foreign sources for machinery and equipment used in agriculture, mining and industry, automobiles and other vehicles, electrical household equipment and industrial chemicals, all of which will be in greater demand as economic recovery progresses.

In 1929 the United States, Britain and Germany, together with Japan, exported approximately \$1,612,000,000 worth of goods to Latin America—an amount equal to 59.5 per cent of total Latin-American imports during that year. Of this total, the United States accounted for 60.3 per cent, followed by Britain with 24.0 per cent, Germany with 14.8 per cent and Japan with a bare 0.9 per cent. After 1929 the share of the United States shrank steadily until a low point of 48.0 per cent was reached in 1933, while Britain, Germany and Japan increased their proportions to 32.2, 17.5 and 2.3 per cent, respectively. During this period Britain, among the three major exporting nations, met with the greatest degree of success in retaining markets, although on a percentage basis Japan's record is more spectacular.

The years 1933 to 1936, however, witnessed a decidedly different situation. During this period of steadily expanding Latin-American purchasing power, the four competing nations increased their share in the total import trade of Latin America from 51.1 to an estimated 59.3 per cent. The competitive position of the United States showed a slight improvement, since the percentage of total

11. Cf. *South American Journal*, September 5, 1936, p. 224.

exports within the group rose from 48 to 49.6 per cent, but Britain's share dropped from 32.2 to 23.1 per cent. Germany, meanwhile, contributed 23.6 per cent of the total in 1936, against 17.4 per cent in 1933 and 14.8 in 1929, and Japan's share reached 3.7, a slight decline from the peak of 4.7 per cent in 1934 but well above both the 1933 and 1929 levels. Thus Britain, which before 1914 had held first place in Latin-American imports, was relegated to third place in 1936. Moreover, while Britain gained the larger share of the relative loss in United States exports during the 1929-1933 period, Germany advanced at Britain's expense from 1933 to 1936. Comparing 1936 with 1929, however, there is little change in the British position, while Germany and Japan have gained largely at the expense of the United States.

COMMERCIAL POLICY OF U. S. IN LATIN AMERICA

The present commercial policy of the United States is governed primarily by the Reciprocal Trade Agreements Act, which came into effect on June 12, 1934 for a three-year period and has since been extended for an additional three years. The trade agreement program is based on bilateral commercial treaties containing the unconditional most-favored-nation clause with the fundamental aim of restoring a "régime of international trade relations based upon fair and equitable treatment rather than exclusive advantage."¹² The Act specifically gives the President power to enter into trade agreements "whenever he finds as a fact that any existing duties or other import restrictions of the United States or any foreign country are unduly burdening or restricting the foreign trade of the United States." No power was granted to change any duty by more than 50 per cent, nor to transfer any article from the dutiable to the free list, or vice versa. Beyond these restrictions, however, the President is given flexible powers, including that to refuse concessions under the most-favored-nation clause to countries discriminating against the United States.¹³

The success of the trade agreements program, with particular reference to Latin America, is not easily determined on the basis of results obtained

12. Cf. Leo Pasvolsky, "Purposes and Machinery of the American Trade Agreement Programme," *Monthly Review* (Lloyds Bank, Ltd.), October 1935. For an analysis of the program as a whole and a study of the individual treaties concluded, cf. David H. Popper, "Progress of American Tariff Bargaining," *Foreign Policy Reports*, May 22, 1935, and "The Hull Trade Program," *Foreign Policy Reports*, October 15, 1936.

13. For further discussion of the most-favored-nation treatment under the trade agreements program, cf. Abraham Berglund, "Reciprocal Trade Agreements Act of 1934," *American Economic Review*, September 1935, pp. 418-19.

TRADE OF THE MAJOR COMPETING NATIONS WITH LATIN AMERICA*

(in millions of old gold dollars)

UNITED STATES†	1929	1930	1931	1932	1933	1934	1935	1936
Exports to L.A.	973	686	346	216	186	203	223	254
Per cent of L.A. imports	35.9	32.9	28.4	28.8	24.5	27.4	27.8	29.4
Per cent of U.S. exports	18.6	18.0	14.3	13.4	14.3	15.9	16.5	17.5
Imports from L.A.	1,107	781	547	358	257	232	287	313
Per cent of L.A. exports	35.0	34.7	32.1	30.4	24.2	21.4	25.7	25.0
Per cent of U.S. imports	25.2	25.5	26.2	27.1	22.7	23.5	23.6	21.9
UNITED KINGDOM‡								
Exports to L.A.	387	297	158	107	125	116	113	118
Per cent of L.A. imports	14.3	14.2	13.0	14.3	16.4	15.6	14.1	13.7
Per cent of U.K. exports	10.9	10.7	9.0	8.4	10.3	9.8	9.1	9.1
Imports from L.A.	672	519	402	307	287	301	280	315
Per cent of L.A. exports	21.2	23.1	23.6	26.1	27.0	27.7	25.0	25.2
Per cent of U.K. imports	12.4	11.1	11.2	13.5	12.9	13.7	12.7	12.6
GERMANY**								
Exports to L.A.	238	178	97	55	68	62	93	121
Per cent of L.A. imports	8.8	8.5	8.1	7.3	8.9	8.4	11.6	14.0
Per cent of Ger. exports	7.4	6.2	4.3	4.1	5.9	6.4	9.1	10.7
Imports from L.A.	366	229	149	106	192	98	130	127
Per cent of L.A. exports	11.6	10.2	8.7	9.0	8.7	9.0	11.6	10.2
Per cent of Ger. imports	11.4	9.2	9.3	9.5	9.1	9.4	13.1	12.7
JAPAN††								
Exports to L.A.	14	10	7	5	9	19	19	19
Per cent of L.A. imports	0.5	0.5	0.6	0.7	1.2	2.6	2.4	2.2
Per cent of Jap. exports	1.4	1.4	1.2	1.3	2.5	4.8	4.4	4.1
Imports from L.A.	7	4	3	1	3	4	9	23
Per cent of L.A. exports	0.2	0.2	0.2	0.1	0.3	0.4	0.8	1.8
Per cent of Jap. imports	0.7	0.5	0.6	0.3	0.7	1.1	2.1	4.8
TOTAL‡‡								
Exports to L.A.	1,612	1,171	608	383	388	400	448	512
Per cent of L.A. imports	59.5	56.1	49.9	51.1	51.1	53.9	55.8	59.3
Imports from L.A.	2,152	1,533	1,101	772	639	635	706	778
Per cent of L.A. exports	68.0	68.2	64.6	65.6	60.2	58.5	63.1	62.2

*Compiled from the following sources:

†U.S., Department of Commerce, Bureau of Foreign and Domestic Commerce, *Foreign Trade of the United States*, Calendar Year 1935, and *Monthly Summary of Foreign and Domestic Commerce*, December 1936.‡Board of Trade, *Statistical Abstract for the United Kingdom*, No. 77, 1934, and *Accounts Relating to the Trade and Navigation of the United Kingdom*, January 1936 and 1937.**Statistisches Reichsamt, *Statistisches Jahrbuch für das Deutsche Reich*, 1931, 1934 and 1935; also, *Wirtschaft und Statistik*, 2 Februar-Heft 1937.††Department of Finance, *Financial and Economic Annual*, 1935; Mitsubishi Economic Research Bureau, *Monthly Circular*, No. 161, March 1937.‡‡Latin-American Trade Statistics: League of Nations, *Review of World Trade*, 1935, and 1936.

thus far. Cuban-American trade showed a striking and immediate revival following conclusion of the commercial pact, effective on September 3, 1934, but this pact was negotiated under peculiarly propitious circumstances. The whole agreement was exceptional, since it provided for reciprocal preferential treatment. Its dominant feature was a reduction in the United States import duty on Cuban sugar from 2 to 0.9 cents a pound,¹⁴ and the assign-

ment of a favorable quota to Cuba in accordance with the provisions of the Costigan-Jones Act. By controlling supplies for domestic consumption, prices were maintained and, in fact, showed an increase, thus giving Cuba not only the full benefit of the duty reduction, but guaranteeing a market

14. Actually, the duty had already been lowered to 1.5 cents on June 7, 1934, but comparatively little sugar was imported at this intermediate rate owing both to anticipation of a further cut in the duty and to political disturbances.

for Cuban sugar. It is hardly surprising that this added purchasing power, combined with tariff reductions, caused an immediate upturn in Cuban imports from the United States. There can be little doubt, moreover, that the competitive position of the United States in Cuba has been strengthened by the treaty provisions, since Cuban statistics show that the share of the United States in this market rose to 64.4 per cent of the total in 1936 compared with 58.3 per cent in 1935, 56.2 in 1934, and only 53.5 in 1933, the last full year before the treaty became effective.

The results of the Brazilian treaty, the second most important agreement in the Latin-American area, have been less positive. This treaty came into effect on January 1, 1936, and during the full calendar year American exports to Brazil rose 12.2 per cent over 1935, as compared with gains of 14.2 per cent in exports to Latin America as a whole and 17.3 per cent to South America alone. Imports increased only 2.3 per cent in contrast with a 9.8 per cent expansion in total imports from Latin America.¹⁵ Low coffee prices largely explain the comparatively slight rise in imports—a factor which can hardly be considered a reflection on the merits of the treaty. The failure of Brazilian purchases in this country to increase more than 12.3 per cent in a year when total Brazilian imports rose over 30 per cent, however, raises serious doubts concerning the efficacy of the agreement in the face of German competition.

The Colombian agreement went into effect on May 20, 1936, and in the subsequent eight months imports from the United States increased by 41.2 per cent as compared with the corresponding period a year earlier, whereas Colombian imports from other countries showed a gain of only 30.1 per cent.¹⁶ Probably the virtual exclusion of imports from Japan under the compensation system introduced in November 1935 also contributed to the improved competitive position of the United States.¹⁷ Owing both to pressure brought to bear by the Colombian textile industry and to general dissatisfaction with the small amount of goods bought by Japan, the commercial treaty between the two countries was denounced and allowed to expire on April 30, 1935. For the following six months a *modus vivendi* provided for sharply reduced imports of Japanese goods, which was fol-

lowed in November 1935 by a strict compensation agreement. Imports of Japanese goods dropped from 5,904,672 pesos in 1935 to only 132,000 in 1936, while exports to that country rose from 26,402 pesos to 134,000.¹⁸ The volume and value of trade affected by the remaining agreements at present in force with Latin-American countries are small, and these agreements—with the exception of the Haitian pact, effective June 3, 1935—have been operative for only a short time.¹⁹

There can be little doubt on the basis of evidence thus far available that the reciprocal trade treaties program as a whole has achieved positive results.²⁰ In Latin America, however, the success of American commercial policy cannot be measured in terms of results from the trade treaty program alone, although the latter is the only politico-economic weapon being used to foster trade. In a larger sense, the question is whether the commercial policy of the United States, based on equality of treatment, with or without the formality of a trade treaty, has proved successful in maintaining Latin-American markets.

Until recently at least, American commercial policy has provided no effective assistance against German competition in Brazil, although in a free market the United States probably would be able to maintain its position. Rather than lose the German market for its cotton, coffee and other raw materials, Brazil has been forced to accept German goods in payment for its produce. This has not only restricted the market for competing goods, but has reduced the supply of foreign-exchange available for purchases in other countries.²¹ If the United States, contrary to its avowed principles of commercial relations, had applied the same system of compensation to trade with Brazil, the latter would have been forced to increase purchases in this country to maintain the traditional market for its coffee. Such a policy, however, was and remains impossible under the Hull trade program. Despite the temporary ascendancy of Germany in the Brazilian market, the basic position of the United States appears to be the stronger of the two, and it is believed that this country will regain its former position owing to the fact that Brazil is reluctant to limit its supply of free exchange and that Germany, for its imports

15. Statistics from U. S., Department of Commerce, Bureau of Foreign and Domestic Commerce, *Monthly Summary of Foreign and Domestic Commerce of the United States*, December 1936.

16. U. S., Department of Commerce, *Press Memorandum*, March 16, 1937.

17. Cf. U. S., Department of Commerce, *World Economic Review*, 1935, p. 315.

18. *Revista del Banco de la República*, Febrero de 1937, p. 62, and *Anuario de Estadística*, 1935, p. 223.

19. In the case of Honduras, March 2, 1936; Guatemala, June 15, 1936; Nicaragua, October 1, 1936; El Salvador, May 31, 1937; and Costa Rica, August 2, 1937.

20. Cf. Henry Chalmers, "Progress of the Reciprocal Trade Agreements Program," *Commerce Reports*, May 15, 1937.

21. For recent trends in German-Brazilian trade, cf. p. 160.

of cotton, is reverting to former sources of supply.²² Recovery of United States trade with Brazil may also be hastened by an informal accord reached in Washington on August 15, 1937. Under this agreement the United States Treasury undertook to sell gold to the Brazilian government up to a total of \$60,000,000, which will be used to steady Brazilian exchange and to establish a central reserve bank. In return, Brazil pledged its cooperation in protecting the principles and benefits of the Brazilian-American trade agreement "against outside competition that is directly subsidized by governments."²³ Any doubt that the provision regarding government subsidies was directed against Germany was dissipated on August 4 when Washington learned that a deal by which the Reich would have purchased 300,000 bags of Brazilian coffee in exchange for Brazilian imports of German manufactures had been cancelled.²⁴ The official German news agency sharply attacked the United States for making "unjustifiable use" of the most-favored-nation clause to thwart the legitimate expansion of the Reich's trade with Brazil.²⁵

Chile is the second major area of commercial conflict between the United States and Germany where recent trends have favored the latter. To a greater extent than any other Latin-American country, Chile has fostered a system of compensation trade, its treaty with Germany having been in effect since February 1, 1934. Importers of goods from the United States, as well as from other countries which have no compensation agreement, have been forced to pay a considerably higher rate of exchange for many classes of goods than that which obtains when such goods are purchased from the "compensation" countries.²⁶ Such discrimination has been especially burdensome in the case of "luxury" goods. In addition to this basic

disadvantage, a shortage of exchange, in itself partly attributable to the compensation system, prompted Chile in June 1936 to refuse exchange for the importation of automobiles and parts for assembly, and radios. "Free exchange," however, which averages about 40 per cent higher than official exchange, was furnished under certain conditions for tires, automobile parts and accessories, radio repair parts and trucks. Since the articles affected are virtually an American monopoly, these rulings have operated to the disadvantage of the United States more than other supplying countries.

Discrimination in the allocation of foreign exchange has also had unfavorable effects on United States exports to Argentina and Uruguay. The former, by means of a system of import permits and surcharges, has followed a general policy of encouraging purchases in these countries.²⁷ Permits for imports are granted only after taking into consideration the amount of foreign exchange obtained from Argentine exports to the country in question and the importer without such permit must pay a surcharge of 20 per cent. This policy has naturally operated to the advantage of those countries with which trade agreements have been concluded and which obtain exchange for imports at the favorable "official" rate. Official figures indicate that Argentine imports from such countries in 1935 were 47.5 per cent greater than in 1933, while imports from other countries increased only 19.8 per cent.²⁸ In addition, although the Argentine government has reduced the list of articles subject to the surcharge of 20 per cent, imports from the United States at the official rate of exchange were still only 46 per cent in 1936 as against 35 per cent in 1935.²⁹

It is apparent that the loss in competitive advantage by the United States in the instances cited has been the result of factors beyond the reach of any corrective action within the scope of the Hull trade program. There is little evidence that the United States is not capable of maintaining its position and gaining its full share of increased Latin-American purchasing power in the absence of such restrictions on free competition. Moreover, scattering data covering the early months of the current year indicate that growing prosperity in Latin America has created a demand for American goods which has tended to offset any uneconomic canalization of trade. In Argentina, where the Roca Agreement with the United Kingdom has frankly favored British goods, the United States

22. The share of Brazil in German cotton imports, which had risen from 2.1 per cent in 1934 to 20.8 in 1935, declined to 11.7 per cent in 1936. At the same time the share of the United States recovered to 36 per cent from 26.7 in 1935. Cf. Institut für Konjunkturforschung, *Halbjahresberichte zur Wirtschaftslage*, Heft 1, Neue Folge, 1937/38, p. 56.

23. *New York Times*, July 16, 1937.

24. *Christian Science Monitor*, August 4, 1937.

25. *Wochenblatt der Frankfurter Zeitung*, July 25, 1937. The German government was further irritated by the revelation, early in August, that the United States was planning to lease a number of warships to Brazil because—as Secretary Hull explained—"The desire on the part of some nations for access to raw materials and the forceful action taken by those nations to consummate those desires have made Brazil, a country of vast territory and relatively small population, particularly apprehensive." *New York Herald Tribune*, August 8, 1937.

26. Cf. George Wythe, "Increased Opportunities in South American Markets," *Commerce Reports*, May 15, 1937. For the rates of exchange applicable under the Chilean compensation agreements, cf. Ministry of Foreign Affairs and Commerce, *Monthly Economic Survey of Chile*, January 1937.

27. Cf. Prospectus for the Argentine Republic Sinking Fund Conversion Loan 4 per cent Bonds, due April 15, 1972, pp. 25-26.

28. *Ibid.*, p. 26.

29. *Ibid.*

increased its participation in total imports from 14.4 per cent in 1936 to 16.3 per cent in the first half of 1937, while the British share fell to 19.8 per cent from 21.9.³⁰ A somewhat similar trend is evident in the case of Chile, where German competition has been exceptionally severe. Chilean imports from the United States during the first six months accounted for 28.1 per cent of the total, against 23.8 per cent in the corresponding 1936 period, and the share of Germany dropped from 33.7 to 25.8 per cent.³¹

THE GERMAN TRADE DRIVE IN LATIN AMERICA

Possibly the most significant feature of Latin American trade relations with the world in the recent past has been the German trade drive of 1935 and 1936. From the German point of view, the unwillingness of industrial countries to concede Germany a favorable balance of trade forced it to attempt to balance essential raw material imports with exports of manufactured goods by clearing and barter agreements.³² Since Latin America was for the most part willing to accept barter arrangements, Germany made heavy purchases of needed materials in these countries, thus causing an accumulation of balances which could be used only for the purchase of German goods. This method was supplemented by direct export subsidies. The combined policy has resulted in a shift in Germany's raw material purchases as well as a change in the direction of its exports. Cotton imports have shifted from the United States to Brazil and Egypt, while Argentina, Brazil and Chile have increased their share in Germany's wool imports.³³

In German trade relationships with Latin America, the ASKI mark system is most widely used, although it has been supplemented by compensation agreements, as in the case of Chile, or such special arrangements as have been concluded with Brazil. ASKI marks are used to pay the Latin American exporter for specified products shipped to Germany and can only be used to purchase certain German goods.³⁴ Since the latter are ordinarily

quoted in terms of Reichsmarks considerably higher than similar products offered by other major competing nations, ASKI marks must be sold at a discount sufficiently great to offset this competitive disadvantage. Consequently, the exporter of goods to Germany must demand a correspondingly higher price in terms of ASKI marks.³⁵

Among the major South American countries, German commercial policies have met with the greatest success in Brazil and Chile, where Germany in 1936 ranked as the chief source of imports, a position held by the United States from the World War to 1935.³⁶ Future German trade relations with Brazil, however, are somewhat obscured by the sharp drop in Germany's cotton purchases, which declined from 82,329 tons in 1935 to 41,403 in 1936, and the uncertainty surrounding the provisions of a new commercial treaty which is to replace the present *modus vivendi*. In January 1936 the Brazilian government denounced, along with other treaties, its commercial agreement with Germany but, before the date of expiration (July 31, 1936), a *modus vivendi* of one year's duration was arranged by an exchange of notes.³⁷ This temporary arrangement has preserved existing trade relations and prevented the application of the maximum tariff rates to German goods after August 1, 1936, which would otherwise have been mandatory under the "denunciation decree." In return for Brazil's commitment to permit the exportation of up to 62,000 tons of cotton against compensation marks, Germany agreed to buy 1,600,000 bags of coffee (not to be re-exported without the consent of Brazil), 18,000 tons of tobacco, 10,000 tons of frozen meats, 4,000 tons of bananas, 4,000 tons of Brazil nuts and 200,000 cases of oranges, while no duty was to be imposed on rubber, cacao, minerals and other raw materials for German industries.³⁸ Brazil consequently obtained a needed outlet for various products, but only at the expense of limiting the amount of foreign exchange available for meeting payments for imports and financial services elsewhere.

35. *Ibid.*, p. 3.

30. Roberts, Mcynell & Co., *Weekly News Bulletin*, No. 113, July 24, 1937. This improvement was doubtless in part due to increased purchases of Argentine goods by the United States, which in turn resulted in the allocation of official exchange to cover more American products.

31. *Commerce Reports*, August 7, 1937.

32. Reichs-Kredit-Gesellschaft, Aktiengesellschaft, *Germany's Economic Development during the First Half of the Year 1935*. For a detailed survey of German foreign trade developments, cf. John C. deWilde, "Germany's Trend to Economic Isolation," *Foreign Policy Reports*, November 7, 1934; also, "The German Economic Dilemma," *Foreign Policy Reports*, March 15, 1937.

33. *Halbjahrsberichte zur Wirtschaftslage*, cited, p. 56.

34. Cf. H. Gerald Smith, "German Trade Competition in Latin America," *Commercial Pan-America*, October 1936.

36. Brazilian imports from Germany accounted for 23.5 per cent of the total in 1936, as contrasted with 8.9 per cent in 1932, while the corresponding figures for Chile were 28.0 and 14.8 per cent, respectively. From 1932 to 1936 the share of the United States in Brazilian imports dropped from 30.1 to 22.1 per cent, and the percentage of Chilean imports rose slightly from 23.1 per cent to 25.4. In both cases the indicated ratios are distorted by the over-valuation of German imports, owing to the fact that the discount of the ASKI mark is not taken into consideration, but the basic trend is correct.

37. Cf. Harvey and Bruzard, *Report on Economic and Commercial Conditions in Brazil*, cited, pp. 45-46. The *modus vivendi* was extended for three months by an exchange of notes on June 16, 1937.

38. *South American Journal*, July 11, 1936, p. 20.

The German-Chilean compensation treaty went into effect on February 1, 1934 and, on December 26 of the same year, the two countries concluded an unconditional most-favored-nation commercial treaty.³⁹ The salient feature of the commercial treaty was that Germany undertook to permit the importation of 80,000 tons of Chilean nitrates, duty free, up to June 30, 1935. This quota was subsequently placed on an annual basis by an exchange of notes dated September 25, 1935 and January 7, 1937, the latter exchange providing for extension of the treaty for eighteen months from January 12, 1937.⁴⁰ Moreover, Germany granted Chile an additional duty-free nitrate quota of 19,504 tons for importation during the period from August 25, 1936 to June 30, 1937.⁴¹

In contrast to the expansion of its trade with Brazil and Chile, Germany has been unable to improve its competitive position in Argentina, where the percentage of total imports supplied has dropped from 11.5 per cent in 1929 to 9.7 in 1932 and 9.2 in 1936. This apparently has been due to Germany's inability or unwillingness to increase imports of Argentine raw materials and to Britain's preferential position in this market. On the other hand, the shift in German coffee purchases to Colombia during 1935 resulted in an accumulation of ASKI marks which enabled German exporters to expand sales in that market. More stringent control over ASKI mark transactions, under a ruling of the Colombian exchange board dated June 22, 1935, temporarily checked German-Colombian trade until a new agreement with Germany was concluded on November 5, 1935. The German share in Colombian imports, however, rose from 15.3 per cent in 1932 to 18.7 in 1935, and a further gain to 22.3 per cent was recorded in 1936. After the compensation agreement with Germany had expired on November 5, 1936, Colombia severely restricted trade with the Reich. Imports from Germany during the latter months of 1936 and the early part of 1937 dropped sharply, but the new commercial treaty between the two countries, signed on May 21, 1937, may alter this trend.⁴²

39. *Commerce Reports*, April 6, 1935, p. 231.

40. Ministry of Foreign Affairs and Commerce, *Monthly Economic Survey of Chile*, January 1937.

41. *Commerce Reports*, September 5, 1936, p. 715.

42. For further details regarding German-Colombian trade relations, cf. U. S., Department of Commerce, Bureau of Foreign and Domestic Commerce, *World Economic Survey*, 1935, p. 315, and *Latin American Financial Notes*, No. 208, November 29, 1936, pp. 7-8. The text of the new Colombian-German compensation agreement has been published by the Bureau of Foreign and Domestic Commerce (Finance Division) as *Special Circular* No. 422, June 15, 1937; for a discussion of its possible effects, cf. *New York Times*, August 16, 1937.

From the foregoing, it should be apparent that German methods of trade competition in Latin America are the direct antithesis of those employed by the United States under the Hull trade program, and conflict with this country's traditional insistence on equality of treatment. Under the present system, however, any permanent German competitive advantage in Latin-American markets will depend on the extent to which Germany continues to purchase Latin-American raw materials. Latin America ranks high as a source of various German imports but, aside from coffee, there are few commodities which could not be purchased elsewhere should it become expedient, economically or politically, to do so.⁴³ In addition, Germany's needs for many Latin-American commodities may be reduced by its intensive drive toward autarchy.⁴⁴ Moreover, Germany's present position in Latin America has been built up by means of export subsidy extended through a system of blocked marks, which cannot last indefinitely.

JAPANESE COMPETITION IN LATIN AMERICA

In terms of gold values, Japanese exports to Latin-American nations virtually quadrupled from 1932 to 1934 and have since shown no important change. Yet in 1934, which apparently marks the peak year in terms of relative competitive positions, Japan supplied only 2.6 per cent of total Latin-American imports, and this ratio has since declined to approximately 2.2 per cent. Phenomenal as this increase seems when compared with 1929, when Japan supplied only 0.5 per cent of total Latin-American imports, it nevertheless indicates that Japan is but a minor factor in Latin-American trade as compared with the United States, Germany and Britain.

The active participation of Japan in the Latin-American market has been based almost wholly on the ability of Japanese manufacturers to undersell foreign competitors in the case of simple cotton textiles and other standardized manufactures embodying a high percentage of direct labor costs. It is also probable that increased demand for Japanese low-priced goods has been due in part

43. For an analysis of the changes in German imports from Latin America, cf. "Die Ibero-Amerikanischen Länder als Lieferanten Deutschlands," *Wirtschaft und Statistik*, 1 November Heft 1936. In 1929 53 per cent of German imports from Latin America consisted of foodstuffs, and other raw materials accounted for 47 per cent, as compared with 30 and 70 per cent, respectively, in 1935. The most pronounced change has occurred in cotton imports, the percentage from Latin America having risen to 41.4 per cent from only 2.3 in 1929.

44. Cf. "Germany's Supply of Agricultural Raw Materials," *Weekly Report of the German Institute for Business Research*, January 13, 1937.

to the drop in Latin-American purchasing power.⁴⁵ Conversely, improved economic conditions in Latin America since 1934 have probably tended to increase demand for better quality goods, although it is impossible to determine what degree of success Japan might have met in this market in the absence of restrictive measures.

Japan has relied not so much on a trade treaty program as on the visits of commercial missions bringing samples of goods to foster sales in Latin America. In 1934 such missions visited virtually every country in this area and, for the first time, diplomatic relations were established with Colombia.⁴⁶ Within the same year, however, a number of Latin-American countries took steps to restrict Japanese imports or force increased purchases by Japan.⁴⁷ Acting in the interest of the domestic textile trade, the Chilean Exchange Control Commission ruled on December 11, 1934 that exchange for the importation of Japanese goods would be granted only to the extent made available by exports of Chilean goods to Japan.⁴⁸ Colombia, Cuba and Peru denounced the existing commercial treaties with Japan, while Ecuador and El Salvador imposed surtaxes on Japanese imports.⁴⁹ Since that time, Colombia has further limited Japanese imports by a strict compensation agreement,⁵⁰ while Cuba has instituted a system of import control which applies a maximum tariff to goods from countries whose purchases from Cuba are less than 25 per cent of their exports to Cuba in the previous year.⁵¹ The effect of this ruling on Japanese trade is illustrated by the fact that imports from Japan dropped from \$2,549,000 in 1935 to \$652,000 in 1936.⁵² Such restrictive measures are typical of steps taken by many other Latin-American nations during the past two or more years, with the result that Japanese exports to this area have been held at the levels reached in 1934. On the other hand, Japanese purchases in Latin America have increased sharply during the past three years, the

total for 1936 amounting to \$23,000,000, in contrast to \$9,000,000 in 1935 and only \$4,000,000 in 1934. This factor is doubtless of more potential importance for the future of Japanese competition in Latin America than any campaign of sales propaganda, since the doctrine—"Buy from those who buy from us"—is deeply imbedded in many sections of Latin America. As a single instance, Japan increased its purchases of Brazilian cotton to 43,328 tons, valued at 202,937 contos, in 1936, from only 2,492 tons, worth 13,546 contos, in 1935.⁵³ Japan has thus become an important market for Brazil's second most important export commodity and, in order to maintain this new outlet, Brazil will probably find it necessary to encourage imports of Japanese goods. Furthermore, the way has been cleared recently for a trade agreement between Japan and Chile, which is expected to provide for increased Japanese imports of Chilean nitrates, copper and other minerals in exchange for heavier purchases of Japanese goods.^{53a}

BRITISH COMMERCIAL POLICY IN LATIN AMERICA

British exports to Latin America as a whole have shown greater stability than those of the major competing nations, and the ratio of the value of such exports to total Latin-American imports was the same in 1932 as in 1929. The accumulation of blocked funds owed both to commercial and financial creditors, however, as well as increasing difficulties encountered in maintaining the British position in this market, led to positive action in the form of negotiations for commercial treaties designed to meet altered conditions. The first and major treaty was the commercial convention concluded with Argentina on May 1, 1933. This pact, known as the Roca Agreement, established the general policy of the Argentine government of favoring imports from those countries which purchase Argentine products—a principle embodied in reciprocal trade agreements subsequently concluded with other countries. The Roca Agreement provided for tariff reductions on various goods normally imported from Britain, and maintained coal and all other duty-free goods on the free list. In return, Britain agreed to impose no new or increased duties on meat and grains, nor to place quantitative restrictions on imports of specified products (wheat, corn, linseed, bran and pollard, sharps and middlings, raw wool; *premier jus*, unrefined tallow, horse hair, casings and quebracho extract) other than meat.⁵⁴ In the case of meat, the

45. Cf. V. P. Copping, *Expansion of Japan's Foreign Trade and Industry* (U. S., Department of Commerce, Trade Information Bulletin, No. 836).

46. Special Circular No. 326, *Economic Trends in Latin America during 1934*, Division of Regional Information, Bureau of Foreign and Domestic Commerce, January 17, 1935, p. 6.

47. *Ibid.*, p. 7.

48. *Commerce Reports*, February 9, 1935, p. 95. For a discussion of Japanese trade competition in Chile with respect to individual commodities, cf. *New York Times*, December 17, 1934. On August 8, 1937 a Chilean trade mission returned from Japan with an agreement which was reported to provide for greatly increased Chilean exports. Cf. *ibid.*, August 9, 1937.

49. *Economic Trends in Latin America during 1934*, cited, p. 7.

50. Cf. p. 158.

51. *Commerce Reports*, March 30, 1935, p. 211.

52. *Ibid.*, May 29, 1937, p. 443.

53. *Brazilian Business*, March 1937.

53a. Cf. *New York Times*, August 9, 1937.

54. Cf. *Board of Trade Journal*, May 11, 1933, p. 729.

British government agreed not to reduce imports of chilled beef in any quarter below the quantity imported in the corresponding three months of the year ended June 30, 1932, unless necessary to maintain prices in the British market, and any reduction of more than 10 per cent in the quota was to be effected only after consultation with Argentina and other meat-exporting countries.⁵⁵ In addition to making tariff concessions, the Argentine government agreed that, so long as any system of exchange control existed, the full amount of sterling exchange derived from British purchases in Argentina would be used to cover remittances to Britain after the deduction of a "reasonable sum" for the payment of the service on Argentine external debts in other countries.⁵⁶

The direct linking of British imports from Argentina with the availability of exchange for commercial and financial remittances to Britain has undoubtedly given the latter a competitive advantage over the United States. Nevertheless, Argentine economic recovery has stimulated the demand for American "prosperity" goods sufficiently to cause a moderate improvement in the relative position of the United States in this market during the last few years. In 1929 the United States supplied 26.4 per cent of total Argentine imports and Britain accounted for 17.6 per cent, but by 1933 the proportions had been changed to 12.7 and 21.4 per cent, respectively, owing largely to the fact that Argentina found it easier to dispense with agricultural machinery, automobiles, trucks and other typical American manufactures than with British coal, textiles and similar staples. From 1933 to 1936, however, the share of the United States rose to 14.6 per cent and that of Britain declined to 20.4 per cent, while data covering the first half of the current year indicate that this trend has been continued.⁵⁷

The essential principles of the Roca Agreement were also embodied in the Anglo-Uruguayan Trade Agreement, signed on June 26, 1935.⁵⁸ In addition to providing for the release of blocked funds due

to British creditors, who were paid 30 per cent in cash and the remainder in the form of $3\frac{1}{2}$ per cent, five-year sterling bonds, this treaty stipulated that not less than 80 per cent of the exchange derived from British imports of Uruguayan products in any twelve-month period would be made available for British requirements.⁵⁹ Since this ratio, however, was to be based on British c.i.f. statistics, its actual effect was calculated to make all exchange so derived available for requirements of the United Kingdom.⁶⁰ The pact has been in effect for too short a period to gauge its full effects, but it may be pointed out that the percentage of Uruguayan imports from Britain rose from 16.6 per cent in 1935 to an estimated 18.2 in 1936, whereas the share of the United States declined from 16.3 to 13.0 per cent.

The United Kingdom has also recently concluded commercial treaties with Cuba and Peru, while an exchange of notes with Brazil, dated August 10, 1936, provides for reciprocal most-favored-nation treatment pending conclusion of a new treaty. The treaty with Peru, signed on October 6, 1936, contains numerous tariff concessions by Peru on specified iron and steel products, caustic soda and certain textiles, and binds the existing duty on an extensive list of articles, while British concessions are limited to binding duty-free entry or existing duties on chinchona bark, cruda balata, taro, raw guano, specified varieties of wool and raw cotton.⁶¹ In addition, "Peru undertakes to accord benevolent treatment to public utility and other undertakings in Peru in which British capital is invested."⁶² While Britain is assured reciprocal most-favored-nation treatment, concessions granted by Peru on British goods have been extended, under existing treaty rights, only to Brazil and Spain.⁶³ The Cuban treaty, signed on February 17, 1937, contains no significant features beyond the reduction of duties on certain British linen and woolen piece-goods, the stipulation that British insurance companies shall not be subjected to further restrictions and the recognition by the Cuban government of the "necessity of alleviating the position of the United Railways of Havana."⁶⁴

55. *Ibid.*

56. *Ibid.* The "reasonable sum" was subsequently set at 40,000,000 pesos, or about £3,000,000 annually. Based on 1936 trade between the two countries, this would leave about £26,800,000 available for other remittances after payment for imports. The agreement was extended in 1936 with only one change of importance: the imposition of a duty of $\frac{3}{4}$ d. a pound on British imports of Argentine chilled beef. In addition, it is reported that the "reasonable sum" to be deducted for debt service in countries other than Britain has been reduced to £1,500,000, although this is not embodied in the agreement itself. Cf. "Anglo-Argentine Trade Agreement," *Supplement to The Economist*, December 5, 1936. The text of the pact has also been published in the *Board of Trade Journal*, December 10, 1936.

57. Cf. pp. 159-60.

58. Cf. *Board of Trade Journal*, July 11, 1935, p. 64.

59. *Ibid.*

60. *Ibid.* The order of priority of exchange allocation was established by a supplementary agreement. It is a significant feature of the latter that debt service, including interest and rent charges of British companies operating in Uruguay, payment of British income tax and pensions payable to persons in Britain were placed ahead of imports. Further details may be found in *Latin American Financial Notes*, No. 176, July 29, 1935, p. 11.

61. Cf. *Board of Trade Journal*, October 8, 1936, p. 517.

62. *Ibid.*

63. *Ibid.*, February 25, 1937, p. 275.

64. *Ibid.*, March 4, 1937.

British commercial policy in Latin America, as exemplified by the treaties outlined, differs in two major respects from that of the United States. In the first place, the treaties with both Argentina and Uruguay are based on the principle that exchange derived from the exports of such countries to Britain be allocated to the payment of British imports and other requirements, which not only bears a strong resemblance to ordinary clearing agreements, but contrasts directly with American insistence on "equality of opportunity." Second, British trade treaties have almost without exception contained some provision for "benevolent treatment" of British capital investments, whereas the American State Department has steadfastly refused to link commercial policy with the interests of bondholders and other investors.

CONCLUSION

The statistical record of the past few years clearly indicates that the struggle for Latin-American trade has been intensified, and that the chief competing nations—the United States, Britain, Germany and Japan—have succeeded in raising materially their aggregate share in Latin-American imports. The most aggressive campaign has been conducted by Germany, which has been forced to shift imports to those countries providing an outlet for its manufactures. The German trade drive has been most successful in Brazil and Chile, where Germany in 1936 displaced the United States as the chief source of imports, and competition has been scarcely less severe in Peru, to say nothing of various Central American markets. On the other hand, Germany has been less successful in Argentina, which represents the richest market in Latin America, partly as a result of British commercial domination manifested in the Roca Agreement.

With the possible exception of Argentina, there has been no intensive British trade drive in Latin America since 1932, beyond the continuing preoccupation of British industry in general with export markets. Recently, however, there has been evidence of a determination to foster markets by means of commercial agreements, which has possibly been inspired by the Hull trade program. Nevertheless, British industry is hard pressed to meet domestic orders, owing both to economic recovery and to the rearmament program, and temporarily at least it appears that Britain's competitive position has been weakened. Thus, while American exports to Latin America rose 39.5 per cent in the first quarter of 1937, as compared with the same 1936 period, there was only a 16.8 per cent expansion in British sales to this market.⁶⁵

Following the spectacular rise in Japanese sales to Latin America during the early years of the depression, this country has encountered problems which have definitely checked further expansion, so that the gold value of exports to Latin America has remained constant for three years. The initial factors in this situation were probably the loss of advantage resulting from currency depreciation when the United States abandoned gold, and the rise in world prices for industrial raw materials. In addition Japan, probably to a greater extent than any other country, has faced restrictive measures in Latin America. This doubtless has been due in large part to the fact that Japanese purchases of Latin-American goods have been definitely limited, amounting in 1934—the peak year of Japanese competition—to only 0.4 per cent of total exports from this area. Japan, moreover, has felt the growing competition of Latin-American industries, particularly in the case of simple textiles, and has thus far displayed no great capacity to meet American and British standards and prices in the case of high-quality manufactures. Finally, while the sharp rise in Japanese purchases since 1935 may induce Latin America to open markets for Japanese goods, potential gains appear to be decidedly limited.

The inroads made by Germany into Latin-American trade at the expense of the United States through use of the ASKI mark and compensation agreements cannot be minimized. The position of the United States, however, appears to be far stronger fundamentally, especially since increased exports from this country have not been stimulated by artificial measures and do not depend on a shift in normal trade relations. Imports of American goods fluctuate with the economic cycle of the raw material countries, and the rise in Latin-American purchasing power currently in evidence may logically be expected to increase demand for American luxury goods to a greater extent than that for the staples furnished by Britain and the "price" goods of Germany and Japan. Moreover, while Britain's competitive position is being weakened by home market demands and that of Germany depends on uneconomic measures, which can hardly be considered permanent, the productive capacity of the United States is neither strained by domestic requirements, nor is the normal flow of export trade fettered by political or monetary considerations.⁶⁶

65. U. S., Department of Commerce, Bureau of Foreign and Domestic Commerce, *Monthly Summary of Foreign Commerce of the United States*, March 1937; and *Accounts Relating to the Trade and Navigation of the United Kingdom*, April 1937.

66. The recent agreement with Brazil, noted on p. 159, constitutes an exception, the significance of which is as yet difficult to estimate.